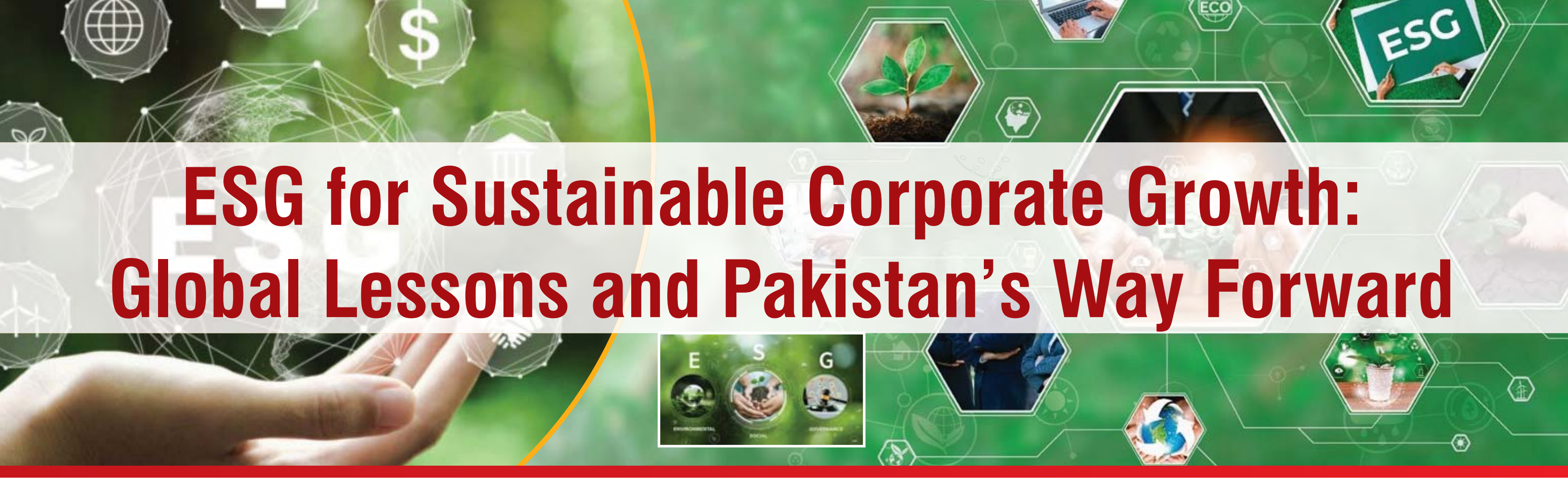

ESG for Sustainable Corporate Growth: Global Lessons and Pakistan's Way Forward

With pressing challenges ranging from climate change to extreme weather events, the corporate sector is shifting its focus from mere profitability and shareholder value toward environmentally and socially responsible business operations. Corporate governance must embrace ESG initiatives to address non-financial factors on a global scale.

The concept of ESG has evolved from the early movements of Corporate Social Responsibility (CSR) and Responsible Investing, gaining further significance following the UN's adoption of the Sustainable Development Goals (SDGs) in 2015. ESG is built around three key pillars:

1) **Environmental factors -** energy use, waste management, recycling and reuse, carbon emissions, natural resource management, and overall resource efficiency.
2) **Social factors -** working conditions, diversity and inclusion, health, community impact, and the treatment of employees.
3) **Governance factors -** ethics, transparency, and monitoring standards for corporate decision-making.

ESG adoption in the corporate sector - indicates that companies with strong ESG practices tend to achieve better financial performance. Therefore, embedding ESG goals into business strategy and operations is essential for overall efficiency and sustainable success.

Way Forward for Strategic Business Plans

1) **Awareness of ESG Principles:** Strategic business policies need to incorporate environmental concerns and the resulting direct impact of business operations; these should include issues such as net-zero carbon, conservation of natural resources including water, and reduction or elimination of chemical dumping. Social issues should focus on human resources policies and practices, diversity and inclusion, customer relationships, and CSR initiatives. Governance should include four-eyes policies, transparency, and compliance.
2) **Assess the Current Situation:** Business owners and shareholders need to evaluate corporate policies and actions and their potential impact on sustainable business operations.
3) **Set ESG Goals and Action Plan:** Aggressive ESG goals should be developed as part of the overall strategic business plan, supported by proper action plans for timely achievement of these goals and targets by the concerned functional heads.

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4) **Implement ESG Practices:** Environmental practices may include reuse, recycling, water conservation, transition to renewable energy, and adoption of cleaner manufacturing processes. Social initiatives should include a hiring process that considers diversity and inclusion. A compliance function should be introduced to ensure adoption of policies related to ethical business practices and board oversight.
5) **Monitoring Performance:** Key performance indicators (KPIs) in each of the three core areas of ESG, including, but not limited to, carbon emissions reduction (net-zero), employee satisfaction and retention, and supply chain transparency as it should be introduced to achieve relevant goals.
6) **Communication:** Communication plays a vital role in achieving goals by engaging stakeholders who are part of the ESG action plan. It promotes commitment and builds goodwill.
7) **Continuous Improvement Loop:** ESG is a continuous journey that does not end. A continuous improvement loop should be built into the strategic business plan, supported by appropriate budgetary allocations to ensure action rather than mere discussion.

Whether we believe in climate change or not, ESGs transparency is now a business requirement and a key factor for business survival. ESG-related goals, actions, and reporting serve as an important performance evaluation tool for corporate entities, making them relatively more socially responsible organizations.

ESG Adoption in Developed Countries

Developed countries have started implementing legal frameworks to ensure adoption and achievement of ESG goals by the corporate sector. Two leading examples are the USA and the UK:

Institute of Corporate Governance (PICG) to develop ESG standards. The strategy included a practical framework supported by regulatory enactments.

In **2022,** the Securities and Exchange Commission of Pakistan (SECP) introduced the following ESG regulatory road-map.

In **2023**, the Securities and Exchange Commission of Pakistan (SECP) issued Sustainability Disclosure Guidelines relating to ESG for listed companies in Pakistan. It also provided detailed key ESG performance metrics for each of the three core areas.

Country	Regulatory / Policy Framework	Corporate Examples	Governance
United States	U.S. Securities and Exchange Commission (SEC), requires listed companies to disclose climate-related risks, greenhouse gas emissions, and sustainability governance structures	**Microsoft** has set the target to achieve carbon net zero by 2030. **Apple** has set goal of 100% renewable energy for operations, ethical supply chains and board-level oversight of ESG goals.	Executive compensation linked to ESG; Independent boards and audit committees ensure transparency and accountability
United Kingdom	The UK Corporate Governance Code (by the Financial Reporting Council) emphasizes long-term sustainability, stakeholder engagement and board diversity. Climate related Reporting has been made compulsory for large companies since 2022.	**Unilever is** pioneer in integrating sustainability into its core strategy through the Unilever Sustainable Living Plan. **BP (British Petroleum)** is transitioning towards renewable energy and setting net-zero targets by 2050.	Board diversity and stakeholder inclusion are central principles

Current Landscape in Pakistan

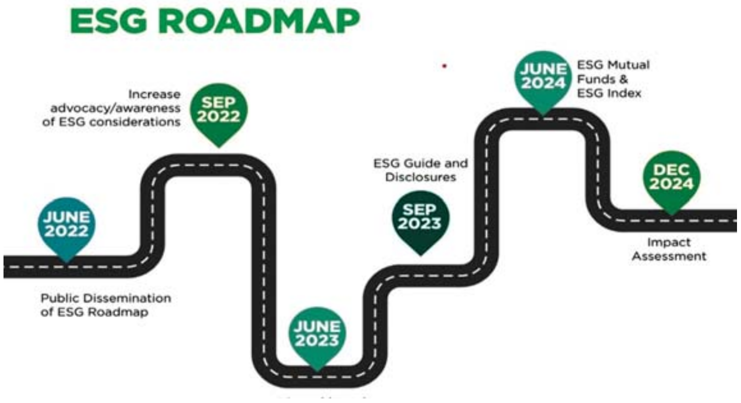
Pakistan is a signatory to the SDG goals and targets.

In **2016,** the Parliament approved the national development agenda. Vision 2025 was initiated to ensure implementation of SDG initiatives.

In 2017, the State Bank of Pakistan (SBP) issued its Green Banking Guidelines (GBG) to encourage banks and financial institutions to adopt environmentally friendly practices. These guidelines are designed to integrate environmental and social risk management into the banking sector, promoting sustainable financing and investment in eco-friendly projects.

In **2021**, Pakistan introduced updated Nationally Determined Contributions (NDC), forming a comprehensive strategy and action plan to reduce greenhouse gas (GHG) emissions. Initiatives like the Ten Billion Trees Tsunami Project (TBTTP) are part of this strategy.

In **2021,** a task force was formed by the Pakistan Stock Exchange (PSX) in collaboration with the Pakistan



Source: SECP

Challenges to ESG adoption in Pakistan

The biggest challenge to industry-level ESG adoption in Pakistan is the slow pace of practical implementation and the resulting lack of corporate engagement. Entrepreneurs generally focus on profit-making, placing little or no emphasis on social responsibility due to a lack of a long-term approach toward developing a sustainable society. Business owners and shareholders often avoid costs associated with ESG audits and maintaining relevant data for monitoring and control.

Government bodies and monitoring agencies also lack adequate professional resources and the commitment to follow up on achieving SDGs. There is a critical need for allocation of resources and budgets for training and development of sustainability professionals and ESG compliance auditors.

Role of Digital Transformation & AI

Digital transformation can play a vital role in effectively implementing ESG initiatives in the corporate sector for sustainable development and economic progress. Cloud computing, artificial intelligence (AI), and Big Data are key tools for monitoring and reporting ESG-related actions and outcomes. AI can be used to detect and measure carbon emissions, as well as track energy consumption and conservation for sustainable business operations.

The Way Forward

In light of the above challenges, and to accelerate the move toward a sustainable corporate sector, organizations should prioritize the following steps for ESG adoption:

- Assessment of current status and strategy development for the future.
- Identification of global benchmarks for voluntary compliance.
- Assurance of meeting regulatory and reporting requirements, wherever applicable.
- Stakeholder engagement through regular communication covering investors, customers, employees, communities, and relevant regulatory bodies.
- Risk management covering impacts on client reputation, operations, and financial performance.
- Training and education (top-down) on ESG principles and practices.
- Capacity building within the organization.
- Key performance indicators (KPIs) and frameworks for monitoring gaps and progress.
- Integration with business strategy, making ESG goals an integral part of long-term corporate objectives.
- Adoption of technology solutions to support ESG data collection, analysis, and reporting.
- Industry-specific expertise to stay updated on ESG trends and best practices.
- Continuous improvement loop to ensure ongoing ESG progress.

The ultimate purpose should be the achievement of ESG goals and the development of a sustainable, socially, and environmentally responsible organization. ESG adoption should not be viewed as a mere compliance exercise; it is a strategic necessity for Pakistan's economic resilience and reputation. Effective corporate governance is the backbone of successful ESG integration. A successful transition to sustainable business practices will define Pakistan's competitiveness in global markets.

Policy Recommendations by IPRI

The Islamabad Policy Research Institute (IPRI) conducts research, analysis, and evaluation of strategic and emerging critical issues and conducts regional and international events covering Pakistan's national interests and policies. The institute has forwarded key policy recommendations for synchronizing the ESG framework within Pakistan's operational ecosystem, summarized as follows:

- A unified ESG policy and implementation framework supported by legal enactments.
- Conversion of traditional high carbon-emitting processes to renewable energy use.
- Professional skills development programs focused on ESG initiatives.
- Introduction of regulatory reporting requirements with clear directions and timelines.
- Use of global benchmarks when introducing KPIs in relevant business and corporate sectors.
- Use of technology and smart business solutions (including AI and Big Data) in implementing, monitoring, and reporting ESG initiatives by the corporate sector.

***About the Author: Mr. Masoud Ali Khan, FCMA,** is an accomplished C-level executive with a successful track record in strategic business planning, financial management, business and financial due diligence, operations, investments, risk management, and ESG functions for large organizations in Pakistan, Saudi Arabia, and the UAE (Dubai), covering the MENA region. He is the Founder and CEO of MAK Synergies (Pvt.) Ltd.*